

# Equity Research

## Botswana

### January 2017

### 2016 Review and 2017 Outlook

The year 2016 was characterised by an improved economic climate, emanating from the recovery of diamond exports against the backdrop of a struggling mining industry reeling under the effect of depressed commodity prices which culminated in the closure of the country's largest copper and nickel mining company, BCL, in October. In contrast, the non-mining sector had positive performance contributions with an estimated growth of 4.5% during 2016 led by Trade, Hotels & Restaurants; Transport & Communications and Finance & Business Services sectors, respectively. Headline inflation closed the year at 3%, the minimum band of the central bank's target range, mainly attributable to lower fuel prices.

Real GDP grew by 1.5% y-o-y, (+2.7% q-o-q), in the first quarter of 2016 compared to the 2.8% increase, (-2.4% q-o-q), registered in the same quarter of the prior year. With the Agriculture and Mining sectors decreasing by 3.1% and 5.6%, respectively, the increase was attributed to the Trade, Hotels & Restaurants, Finance & Business Services and Transport & Communications which increased by 5.8%, 5.2% and 4.6%, respectively. The second quarter saw GDP remain flat q-o-q but increase by a modest 1.3% y-o-y, with all industries having recorded positive growth with the exception of the Manufacturing, Agriculture and Mining sectors which decreased by 0.2%, 2.5% and 13.8%, respectively, during the quarter. The mining sector's decline in value add during Q2 16 was mainly on the back of 26.6% and 12.1% decreases in copper/nickel and diamond production, respectively. Real GDP fell by 0.8% q-o-q in Q3, but rose by 4.5% y-o-y compared to a 5.4% decline in Q3 15. The increase was underpinned by growth in the Water & Electricity (+59.0%), Mining (+13.3%), Trade, Hotels, & Restaurants (+6.8%), and Transport & Communications (+5.1%) sectors. The significant growth in value add of the Mining sector of 13.3% was due to the 9.3% increase from the diamond industry in the third quarter of 2016 compared to a decline of 33.4% recorded in the same quarter of the previous year due to positive recovery in the global demand for diamonds.

As at November 2016, foreign exchange reserves stood at USD 7.5bn - a 6.17% decrease on the previous year's USD 8.0bn. Total deposits from the public increased by a marginal 2.17% to BWP 61.9bn (October 2015: BWP

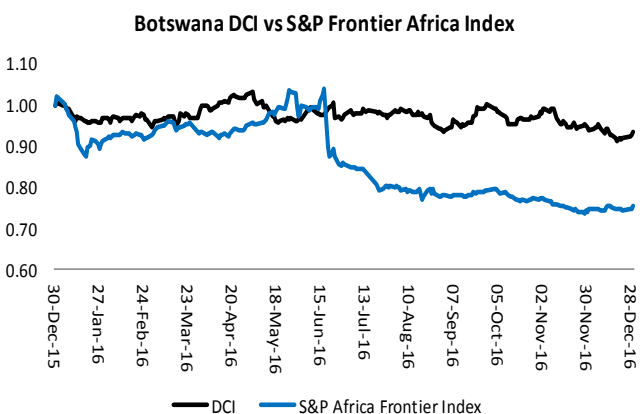
Top 5 gainers and losers- 2016	Opening	Closing	% change	% change
Company	Price (BWP)	Price (BWP)	(BWP)	(USD)
BSE-DCI	10,602.32	9,400.71	-11.33%	-6.45%
Cresta	1.07	1.28	19.63%	26.21%
BIHL	15.2	17.55	15.46%	21.82%
Engen	8.51	9.8	15.16%	21.50%
Chobe	6.8	7.7	13.24%	19.47%
G4S	3.62	4.08	12.71%	18.91%
Choppies	4.40	2.4	-45.45%	-42.45%
FurnMart	1.09	0.7	-35.78%	-32.24%
StanChart	11.20	7.75	-30.80%	-26.99%
FNBB	3.82	2.96	-22.51%	-18.25%
Letshego	2.90	2.3	-20.69%	-16.32%

Source: IAS/BSE

#### Top Ten Shares by Market Cap.

Company	(BWP m)	(USD m)	% of Total
FNBB	7,588.55	712.57	16.29%
BIHL	4,909.96	461.04	10.54%
LETSHEGO	4,294.89	403.29	9.22%
BARCLAYS	3,591.40	337.23	7.71%
SECHABA	3,259.45	306.06	7.00%
SEFALANA	3,099.91	291.08	6.66%
CHOPPIES	2,312.22	217.12	4.96%
STANCHART	1,859.50	174.61	3.99%
TURNSTAR	1,776.93	166.85	3.82%
NAP	1,565.28	146.98	3.36%

Source: /BSE



Source: IAS/BSE





60.5bn); while loans and advances grew at a faster pace of 7.49% to BWP 50.0bn (BWP 46.5m), with the household sector accounting for 24.42% and 60.98% of the respective measures.

The inflation rate remained below the lower limit of the Bank of Botswana's medium term objective range of 3% - 6% for the larger part of 2016, peaking at 3% in February, March and December. Average inflation for 2016 fell to 2.8% y-o-y compared to the previous year's 3.0% with all group indices increasing except for the transport group index, (-1.7% y-o-y), which off-set the other indices' positive growth as it has the highest weighting to the CPI.

## Market Review for 2016

The DCI shed 11.33% in pula terms in 2016 to 9,400.71 pts vs. 10,602.32 pts at end 2015. This translated into a 6.45% contraction in USD terms due to the depreciation of the USD against the BWP. The year was characterised by the DCI registering q-o-q losses throughout the year - Q1 (-3.77%), Q2 (-1.19%), Q3 (-2.82%) and Q4 (-4.04%). It was mainly weighed down by the weakening of some large cap stocks such as FNBB (-22.51%), Choppies (-45.45%), StanChart (-30.80%) and Letshego (-20.69%).

12 counters closed the year in positive territory; 1 was flat and 10 were in the red. Despite the tourism market's tough operating environment during 2016 with increased competition, particularly in urban areas such as Gaborone, Francistown and Palapye, Cresta closed the year as the best performer with its share price (+19.63% to BWP 1.28) moving ahead of its earnings (+15.72% in PAT to BWP 32.2m vs. BWP 27.9m at FY 15). Other top gainers included BIHL (+15.46%), Engen (+15.16%), Chobe (+13.24%) and G4S (+12.71%). Choppies was the biggest loser, contracting by 45.45% to end the year at BWP 2.40 partly attributable to the company's subdued performance which was affected by pre-operative expenses, acquisition costs of additional stores (55) and challenging trading conditions in some markets. The counter registered a 46.81% decline in PAT to BWP 104.9m (FY 15: BWP 197.2m), with all operations not breaking even except Botswana. Other notable losers for the year included FurnMart (-35.78%), StanChart (-30.80%), FNBB (-22.51%) and Letshego (-20.69%).

On the other hand, despite the weakening of metal and mineral commodity prices during the year, the FCI closed the year in the green. Lucara's findings of the 1,111 and 814 carat diamonds in FY 15, gave rise to investor confidence in the counter, which in turn contributed to the bullish activity recorded on the

foreign board in 2016. The FCI closed the year 0.85% higher y-o-y at 1,585.76 pts in pula terms and up 4.62% in USD terms. BOD (+207.69%) strengthened the most, followed by Lucara (+36.50), A-Cap (+29.63%), Magnum (+25.00%), Anglo (+12.36%) and Investec; Galane traded flat, while Shumba and African Energy weakened by 10.00% and 8.62%, respectively.

Although total volumes traded edged up by a marginal 0.46%, market turnover by value decreased across both the domestic and foreign boards y-o-y. A total of 777.9m shares changed hands generating a trading turnover of BWP 2.5bn vs. 774.3m shares worth BWP 3.0bn in FY 15. Letshego maintained its position as the most liquid counter accounting for 41.93% and 31.21% of volumes and value traded, respectively. NAP followed, accounting for 20.59% of volumes traded, largely owing to the 156.0m linked units worth BWP 457.3m (25.8% of issued securities) that changed hands on 15 June 2016 - the majority of these (25.4% of issued securities) having been released by Cash Bazaar Holdings, NAP's holding company.

Market activity peaked in the second quarter owing to the aforementioned NAP transaction, with a total of 291.7m shares worth BWP 708.4m changing hands in the period under review. On a like-for-like basis, Q1 16 registered the most activity with 191.0m shares worth BWP 708.4m trading, largely attributable to trades in Letshego, which accounted for 70.15% of volumes and 48.39% of value. There was a significant decrease y-o-y in average daily market turnover to BWP 10.2m (USD 958,291) on 3.1m shares transacted vs. an average of BWP 12.2m (USD 1.1m) on 3.1m shares in the previous year.

FNBB maintained its status as the largest cap stock on the domestic board, although its weighting declined to 16.29%, (2015: 19.50%), while following Choppies' poor share price performance, BIHL took up the 2<sup>nd</sup> position with a weighting of 10.59%.

10 Most active stocks by volume

	Vol	% of total
Letshego	326,161,836	41.93%
NAP	160,202,476	20.59%
Choppies	97,945,224	12.59%
FNBB	37,732,220	4.85%
BTCL	33,802,771	4.35%
Wilderness	28,137,126	3.62%
Sefalana	16,543,764	2.13%
Letlole	13,578,810	1.75%
RDCP	10,592,307	1.36%
Turnstar	8,808,246	1.13%

Source: IAS/BSE

10 Most active stocks by value			
	Val (BWP)	Val (USD)	% of total
Letshego	792,665,557	74,431,296	31.21%
NAP	468,958,933	44,035,244	18.46%
Choppies	333,328,697	31,299,565	13.12%
Sefalana	221,557,997	20,804,296	8.72%
Wilderness	145,115,260	13,626,323	5.71%
FNBB	127,647,947	11,986,142	5.03%
BIHL	113,386,776	10,647,018	4.46%
Sechaba	89,873,967	8,439,166	3.54%
Engen	36,450,525	3,422,704	1.44%
BTCL	33,515,354	3,147,092	1.32%

Source: IAS/BSE

Total equity market capitalisation in pula terms was relatively flat, closing the year at BWP 421.3bn (USD 39.5bn) compared to the prior year's BWP 421.1bn (USD 37.5bn).

Trading activity highlights for the year were as follows:

- Botswana Telecommunications Corporation Limited (BTCL), listed 1.1bn shares (at BWP 1.00) on the Domestic Main Board of the BSE on 08 April 2016 following a successful IPO of 462.0m shares that was 1.68x oversubscribed.
- The Far Property Company (FPC) listed 380.0m shares at BWP 2.57 on the Domestic Main Board of the BSE on 4 May 2016 following a successful IPO (1.2x oversubscribed) of 20.0m linked units.
- Largest on market transaction executed on the BSE (25<sup>th</sup> June 2016) when NAP traded 25.4% of its issued securities (155.9m shares worth BWP 456.9m) released by Cash Bazaar Holdings Ltd - NAP's holding company.
- Letshego bought back a total of 52.8m shares or approximately 2.41% of the issued share capital of the company.
- Sefalana raised approximately BWP 351.0m net of expenses, by way of a rights issue of 27.9m offer shares at BWP 12.60 per share.
- FWA launched its offer of BWP 2.10 per share to Imara Holdings shareholders in pursuit of its intended acquisition of IHL.

## Market Outlook for 2017

Following the estimated improved GDP growth rate of 3.5% registered in 2016 from the prior year's 0.3% contraction, we expect economic growth to continue to pick up in 2017, underpinned by an expected increase in demand for Botswana's mineral exports on account of an improved global

economy based on increased growth prospects of advanced economies, despite heightened policy uncertainty in some major economies. The Ministry of Finance and Developmental Planning's (MFDP) outlook for 2017 is an estimated growth rate of 4.1% for the domestic economy. We expect economic recovery to have a knock-on effect on the stock market. Going forward, we anticipate increased energy availability and water supply - particularly in the Southern part of the country in 2017, attributable to the expected completion of repairs at Morupule B Power Station and the completion of Phase 2 of the North South Water Carrier scheme that connects to 5 Dikgatlong Dam and Masama wells. These efforts should mitigate continued risks of water and electricity shortages which pose a threat to value addition of other economic sectors.

Based on the Medium Term Fiscal Framework (MTFF), the 2017/2018 financial year is projected to register a budget deficit of BWP 6.8bn (-4.1% of GDP) from the previous deficit of BWP 6.4bn for the 2016/2017 fiscal year, due to the continued sluggish growth in revenues, and increased developmental expenditure from the implementation of the Economic Stimulus Programme (ESP) - launched in 2016, adopted to promote growth, economic diversification and employment creation. The government intends to finance the budget deficit through a mix of borrowing, both domestic and external, and drawing down on its cash balance which in turn will anchor economic stability.

We expect the inflation to register subdued growth but still remaining close to the lower bounds of the 3% - 6% medium-term objective range in 2017, on account of upward pressure from improved oil prices in 2017. In this regard, we believe that the central bank will maintain its prevailing monetary policy stance of softening rates in 2017 - the Bank of Botswana reduced the bank rate from 6.0% to 5.5% in August 2016 in order to stimulate economic activity through lower cost of borrowing.

The new listings of BTCL and FPC catalysed market growth in 2016, and should continue to aid trading activity on the bourse in 2017. Although the former's shareholding is restricted to Botswana citizens only, the company has the largest number of shareholders on the bourse and was the 5<sup>th</sup> most traded stock in 2016 by volume.

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